

Message Text

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PAGE 01 TEL AV 08296 100807Z

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ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 SSM-03 /086 W

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FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC 4079

INFO AMEMBASSY AMMAN

AMCONSUL JERUSALEM

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E.O. 11652: N/A

TAGS: ECON, IS, JO

SUBJECT: APPLICATION OF VAT TO OCCUPIED TERRITORIES

REF: JERUSALEM 1626

1. IN DECEMBER 8 CONVERSATION WITH EMBOFFS, DAVID FARHI, ARAB AFFAIRS ADVISOR TO THE WEST BANK MILITARY GOVERNOR, PROVIDED ADDITIONAL INFORMATION ON THE ADAPTATION OF ISRAELI VALUE ADDED TAX (VAT) TO OCCUPIED AREAS. HE SAID THAT (A) BUSINESSES IN THE AREAS DOING AN ANNUAL TURNOVER OF BELOW IL 75,000 A YEAR WILL BE EXEMPTED FROM VAT; (B) THOSE WITH A IL 75,000 - IL 500,000 TURNOVER WILL NOT BE REQUIRED TO KEEP BOOKS ALTHOUGH THEY WILL HAVE TO PAY AN ESTIMATED VAT OR, ALTERNATIVELY, KEEP BOOKS AND PAY THE REGULAR VAT; AND (C) THOSE FIRMS ABOVE THE IL 500,000 RANGE WILL BE REQUIRED TO KEEP BOOKS AND PAY VAT.

2. FARHI NOTED THAT MANY FIRMS IN CATEGORY "C" WILL BE ENTITLED TO REFUNDS FROM THE VAT, AND THAT CONSEQUENTLY "MOST" OF THESE HAD ALREADY DONE THE NECESSARY PRELIMINARY PAPERWORK REQUIRED. STILL, THEY HAD ASKED THAT THEIR ACQUIESCENCE BE KEPT QUIET. POINTING TO THE DESIRE OF BIG WEST BANK BUSINESSMEN TO AVOID TAKING A STAND ON VAT, FARHI MENTIONED THAT THE HEADS OF THE

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PAGE 02 TEL AV 08296 100807Z

CHAMBERS OF COMMERCE IN BETHELEM (MAYOR FREIJ) AND

EAST JERUSALEM ARE ON TRIPS TEMPORARILY TAKING THEM OUT OF THE COUNTRY.

3. THE ARGUMENT THAT VAT WOULD RUIN SMALL MERCHANTS AND INDUSTRIES WAS REJECTED BY FARHI. HE ALLUDED TO THE EXEMPTION OF SMALL BUSINESSES; HE ALSO SUGGESTED THAT WEST BANK SUBCONTRACTORS FOR ISRAELI FIRMS WOULD BE UNABLE TO COMPETE WITH THE ISRAELI SECTOR UNLESS THEY RECEIVE THE VAT REFUNDS (THEY ARE CHARGED THE VAT BY ISRAELI SUPPLIERS).

4. COMMENT: WHILE MANY FIRMS IN THE TERRITORIES UNDOUBTEDLY WOULD PREFER NEITHER TO PAY THE VAT NOR TO KEEP BOOKS FOR THE REASONS LISTED IN REFTTEL, OPPOSITION NEVERTHELESS SEEMS TO BE PRIMARILY POLITICAL. IN ANY EVENT, AS EXPERIENCE IN OTHER FREE TRADE AREAS HAS SHOWN, PRESSURE FOR TAX HARMONIZATION RISES ALONG WITH THE LEVEL OF TRADE EXCHANGED BETWEEN THE PARTNERS.
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